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C O N F I D E N T I A L SECTION 01 OF 02 LISBON 002744

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STATE FOR EUR/WE KEVIN OPSTRUP; NEA/SCA CHRISTIAN AULBACH;  
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SHANNON

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SUBJECT: PORTUGAL TALKS TO VENEZUELA, RUSSIA AND IRAN TO  
DIVERSIFY ENERGY SUPPLY

REF: A) LISBON 2730 B) LISBON 1814 C) LISBON 1524

Classified By: Pol/Econ Officer Tiffany McGriff, Reasons 1.4 (b),(d)

#### SUMMARY

1. (C) Portugal's energy market is abuzz over Galp Energia's (Portugal's dominate energy firm) recent activities which include the signing of an MOU with Petroleos de Venezuela SA (PdVSA), Gazprom's possible acquisition of a minority stake in the company, and behind-the-scenes procurement talks with Iran's national oil company (NIOC). According to Galp Energia, the company is using the PdVSA MOU and talks with Iran, among other countries, to help Portugal meet its top energy goal -- energy supply diversification. Portugal is heavily dependent on energy imports, with foreign sources providing between 80-90% of its primary energy needs. In a conversation with the Ambassador, FM Amado dismissed concerns that the Galp-Gazprom collaboration would have a negative impact on Europe's energy security and was skeptical that the PdVSA MOU with Galp would result in much concrete cooperation. END SUMMARY

#### ENERGY OVERVIEW -- NEED FOR DIVERSIFICATION

2. (U) Portugal is heavily dependent on energy imports, with foreign sources providing between 80-90% of its primary energy needs. Seventy-five percent of crude oil and one-hundred percent of natural gas are imported. Efforts to alleviate this heavy dependence can be seen throughout Portugal's National Energy Policy, with its strong focus on supply diversification. Galp Energia, the formerly state-owned oil and gas company in which the state retains a 7% stake, dominates the energy market from domestic storage and transportation to distribution and retail sales.

#### THE GALP ENERGIA-PdVSA MOU

3. (C) During Galp Energia's October 2 "Lisbon Energy Forum 2007," Galp Energia and PdVSA signed an MOU that will serve as a framework for potential joint exploration and production projects in Venezuela, and for strategic storage of PdVSA crude in Portugal for direct sale to Portugal and other European countries. Galp Energia's Director of Investor Relations Tiago Villas-Boas informed Pol/Econ Officer that as a result of the MOU, Galp Energia could acquire an 18% stake in the "Magna Reserva" Orinoco Oil Belt project where there are ongoing studies to quantify and certify oil reserves, as well as an undisclosed stake in the Mariscal Sucre natural gas (NG) exploration project. Villas-Boas also stated that while these investment opportunities will likely benefit Galp Energia, Venezuela was the driving force behind the MOU, as

it desperately wants to break into the European oil market.  
(NOTE: Venezuelan Petroleum Minister and PdVSA President Rafael Ramirez Carreno, Iranian Petroleum Ministry Executive Director Hojatollah Ghanimifard, Gazprom CEO Vitaly Vasiliev, and Repsol Corporate Director Antonio Calcada da Sa shared a panel with Galp Energia's President Manuel Ferreira de Oliveira during the forum. Representatives from Chevron, ENI, Sonangol and Total participated in a separate panel. Also, Venezuela and Iranian representatives were given seats of honor during a forum dinner event. END NOTE)

#### RUSSIAN EFFORTS TO ACQUIRE AN INDIRECT STAKE

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¶4. (SBU) Villas-Boas confirmed reports that Russia's Gazprom is looking to indirectly acquire a minority stake in Galp Energia from Angola's Sonangol. Sonangol currently owns a 45% stake in Amorim Energia, which in turn owns 33% of Galp Energia. In a recent press interview, Sonangol's CEO Manuel Vicente stated that his company is willing to reduce its stakes in Galp Energia in order to strengthen connections with Gazprom and secure joint natural gas exploration and production in Angola and Russia.

#### IRANIAN TALKS, BUT NO AGREEMENTS...YET

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¶5. (C) Villas-Boas dismissed press reports that Galp Energia is planning to sign a similar MOU with Iran's national oil company NIOC. However, he acknowledged that the two groups have talked about the possibility of Galp Energia procuring crude oil from NIOC, and he could not rule out future agreements. During the Lisbon Energy Forum, the Iranian Petroleum Ministry's Executive Director stated that Iran is interested in entering the European energy market but did not specify any pending agreements.

LISBON 00002744 002 OF 002

#### COMMENT

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¶6. (C) It is ironic that as most of eastern Europe is seeking to diversify away from Gazprom, Portugal is exploring diversification opportunities with Gazprom to alleviate its heavy energy dependence on African and Middle Eastern suppliers. In a recent conversation with the Ambassador (ref A), FM Amado dismissed concerns that Galp's cooperation with Gazprom would have a negative impact on Europe's energy security and was skeptical that the Galp-PdVSA MOU would result in much concrete collaboration. Nonetheless, we have reached out to others in the MFA and Ministry of Economy to express US concerns. Galp Energia is aware of the conflicts associated with a potential Iranian agreement, complicated further by the fact that Amado is a strong supporter of increasing pressure on Iran because of its nuclear weapons program. END COMMENT

Hoffman